

Message Text

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ACTION EB-08

INFO OCT-01 AF-10 ARA-10 EUR-12 EA-10 IO-13 ISO-00
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NSC-05 OMB-01 PM-05 USIA-06 OES-07 SP-02 SS-15
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R 161715Z JAN 78
FM AMEMBASSY LIMA
TO SECSTATE WASHDC 8181
INFO AMEMBASSY CANBERRA
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AMEMBASSY KINSHASA
AMEMBASSY LONDON
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E.O. 11652: N/A
TAGS: ETRD, EMIN, UNCTAD, CIPEC, PE
SUBJECT: CIPEC MINISTERIAL MEETING, JAKARTA, DECEMBER 5-7

REF: A. 77 STATE 293265, (B) 77 LIMA 11089

1. SUMMARY. WE HAVE TALKED WITH VICE MINISTER OF ENERGY AND MINES, RICARDO SAETTONE, AND MINERALS ADVISOR TO THE MINISTER, JUAN MUNAR, REGARDING RECENT CIPEC MINISTERIAL MEETING, PROPOSED PRODUCTION CUTBACKS, PRODUCER/CONSUMER FORUM AND RIO TINTO ZINC CUTBACK/LOAN PROPOSAL. MUNAR CONFIRMED PERU AGREED IN PRINCIPLE WITH ZAMBIA AND ZAIRE ON PRODUCTION CUTBACK, AND SAID GOP IS NOW STUDYING
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HOW AND WHEN IT CAN IMPLEMENT CUTS. THE GOP IS ALSO STUDYING RIO TINTO ZINC PROPOSAL, BUT APPEARS TO BE UNCONVIENCED THAT IF OFFERS A SOLUTION TO PRODUCERS' CURRENT PROBLEMS. WHILE PERU WOULD TAKE PART IN PRODUCER/CONSUMAR FORUM IT PREFERS BROADER UNCTAD CONTEXT THAN SMALLER PRODUCER/CONSUMAR FORMAT. END SUMMARY.

2. PRODUCTION CUTBACKS - MUNAR SAID THAT PERU HAD AGREED IN PRINCIPLE WITH ZAIRE AND ZAMBIA FOR CUTS IN COPPER PRODUCTION. HOWEVER HE WAS VAGUE ABOUT THE PERCENTAGE OF CURRENT PRODUCTION THAT WOULD BE CUT BACK AND WHEN SUCH A CUT WOULD BE IMPEMENTED. HE SAID THESE QUESTIONS WERE UNDER STUDY WITHIN THE GOP. IN WHAT MIGHT HAVE BEEN A REFERENCE TO CHILE, BUT WHICH CAN ALSO BE APPLIED TO PERU, HE SAID THAT CERTAIN COUNTRIES' FINANCIAL PROBLEMS MIGHT PREVENT THEM FROM CUTTING BACK ON PRODUCTION IN THE IMMEDIATE FUTURE. (COMMENT: WE BELIEVE MUNAR HAS PERU IN MIND).

3. PRODUCER/CONSUMER FORUM - MUNAR USED DISCUSSION ON THIS TOPIC TO REPEAT RHETORIC ABOUT NEED FOR DEVELOPING COUNTRIES TO BAND TOGETHER TO OBTAIN BETTER PRICES FOR THEIR RAW MATERIAL EXPORTS. HE SAID THAT WITHIN A PROUDCER/CONSUMAR FORUM (FOR COPPER) PRODUCERS WOULD BE OVERWHELMED BY INDUSTRIALIZED COUNTRY CONSUMERS. THUS PERU BELIEVES ITS INTERESTS ARE BETTER SERVED BY PURSUING ITS OBJECTIVES OF HIGHER AND MORE STABLE COPPER PRICES THROUGH BROADER FORUM OFFERED BY FULL UNCTAD. MUNAR EXPRESSED HIS VIEW THAT US ACTIONS SINCE NAIROBI UNCTAD MEETING APPEARED INCONSISTENT WITH US JOINING IN CONSENSUS IN SUUPPORT OF INEGRATED PROGRAM THERE. HE ALSO STATED USG APPEARS WILLING TO ACCEPT PRACTICES OF ITS DOMESTIC PRODUCERS THAT IT CRITICIZES WHEN DONE (OR ONLY PROPOSED) BY LIMITED OFFICIAL USE

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FOREIGN PRODUCERS. HE REFERRED EXPLICITLY TO RECENT COPPER PRICE HIKES IN U.S. AS EXAMPLE WHERE USG LETS ITS DOMESTIC PRODUCERS COLLUDE WHILE PROTESTING POSSIBLE PRODUCER'S AGREEMENTS IN INTERNATIONAL TRADE. AS FURTHER EVIDENCE THAT U.S. IS NOT SINCERE WHEN WE SAY WE SEEK BETTER DEAL FOR PRODUCERS, MUNAR CLAIMED THAT U.S. HAD NOT SUPPORTED FINDINGS OF CHARLES RIVER ASSOCIATES (CRA) ECONMETRIC MODEL.

4. IN RESPONSE ECON OFFICER STATED THAT USG WAS NOT OPPOSED IN PRINCIPLE TO COMMODITY AGREEMENTS CITING U.S. ROLE IN NEGOTIATING INTERNATIONAL SUGAR AGREEMENT HE ALSO NOTED THAT U.S. HAD NOT REJECTED CRA FINDINGS, BUT HAD POINTED OUT THAT THE MODEL HAD INDICATED THAT BUFFER STOCKS FOR COPPER WOULD INVOLVE ENORMOUS COSTS. ECON OFF SAID THAT USG VIEWS PRODUCER/CONSUMAR FORUM AS OPPORTUNITY FOR A DISCUSSION FORCUSSED EXCLUSIVELY ON COPPER BY THOSE COUNTRIES MOST DIRECTLY INTERESTED IN STABLE COPPER PRICES, WITHOUT INTRUSION OF EXTRANEIOUS ISSUES.

5. SAETTONE, TAKING MORE MODERATE POSITION, STATED THAT HE WOULD PREFER TO SEE LESS CONFRONTATION BETWEEN PRO-

DUCERS, ESPECIALLY CIPEC, AND CONSUMERS AND MORE COOPERATION, SINCE IN HIS VIEW THERE IS COMMONALITY OF INTERESTS. HE FLOATED IDEA OF POSSIBLE CONTRACT BETWEEN PERU AND U.S. END-USERS OF COPPER IN WHICH U.S. COMPANIES WOULD ESTABLISH PLANTS IN PERU TO TRANSFORM COPPER INTO COMPONENTS FOR USE IN U.S. MANUFACTURED PRODUCTS. FOR EXAMPLE, HE ASKED, WOULD GM BE WILLING TO SET UP A PLANT IN PERU WHICH WOULD USE PERUVIAN COPPER TO PROUDCE ALTER-NATORS AND OTHER COMPONENTS FOR U.S. - BUILT GM VEHICLES? U.S. COMPANY WOULD BENEFIT FROM STABLE SUPPLY OF COPPER WHILE PERU WOULD BENEFIT FROM INCREASED VALUE ADDED. ECON OFF SAID HE WOULD PASS SAETTONE'S IDEA ON TO DEPARTMENT.

6. RIOTINTO ZINC (RTZ) PROPOSAL. MUNAR APPEARED TO BE LIMITED OFFICIAL USE

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FAMILIAR WITH RTZ PROPOSAL AND SAID GOP WAS GIVING IT FURTHER STUDY. HOWEVER, HE FELT THAT FOR PERU, AT LEAST THE LOANS FOR PRODUCTION CUTBACKS WOULD NOT COMPENSATE FOR REVENUES LOST FROM REDUCED EXPORT SALES.

7. ECON OFF SUBSEQUENTLY SPOKE WITH JAIME STIGLICH, FOREIGN MINISTRY'S BASIC PRODUCTS OFFICER, IN EFFORT TO OBTAIN FURTHER GOP VIEWS ON GENERAL COPPER QUESTION. STIGLICH REFUSED TO DISCUSS ANY OF ABOVE TOPICS AT THIS TIME, EXCEPT TO ADMIT THAT GOP HAS AKED EXPERT FROM RIO TINTO ZINC COMPANY TO COME TO PERU TO EXPLAIN THE RTZ PROPOSAL IN MORE DETAIL.

8. COMMENT: PERUVIAN ATTITUDES AS REFLECTED IN THESE CONTACTS DO NOT OFFER MUCH ENCOURAGEMENT THAT PERU MIGHT MOVE AWAY FROM THIRD-WORLD POLICY IT HAS FOLLOWED WITH RESPECT TO COPPER IN RECENTYEARS. HOWEVER, RECENT APPOINTMENT OF NEW ENERGY AND MININES MINISTER AND CHANGES WITHIN FOREIGN MINISTRY (STIGLICH LEAVES IN MARCH) MAY PROVIDE BETTER OPPORTUNITY FOR PRESENTATION AND ACCEP-TANCE OF U.S. VIEWS. IN THIS REGARD, MISSION WOULD APPRECIATE ANY ADDITIONAL INFORMATION FOR PRESENTING U.S. POSITION. IN PARTICULAR PRESPONSES TO POINTED RAISED BY MUNAR ABOUT RECENT PRICE RISES IN U.S. INDUSTRY WOULD BE USEFUL. ALSO, ANY COMMENT ON SAETTONE PRO-POSAL WOULD BE APPRECIATED.
SHALAUDEMAN

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